

Media release

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Banking report lets the big four off the hook

The Senate Economics Committee report into the banking sector, released today, is a disappointing missed opportunity to initiate much-needed reform to rein in the power of Australia's big four banks which exploit their market power at the expense of consumers and small businesses, according to The Australia Institute.

Senior Research Fellow David Richardson said the history of the banking sector showed measures to promote competition invariably fail and that a tougher approach is needed.

"Despite that history, the Committee has pinned its hopes on more competition, as reflected in most of its recommendations. As far as they go, those recommendations may well offer some improvement but they are extremely limited," said Mr Richardson.

"We have seen the big four banks' thirst for profit in their willingness to defy both the Government and the Reserve Bank by increasing interest rates beyond movements in the official rate. Indeed last November's profit grab, when the banks increased interest rates well above the official rate, has already taken an additional \$800 million per annum out of the pockets of home owners and into the banks' profits.

"Figures released yesterday showed that underlying profits, what Westpac calls 'core earnings', were \$19 billion in just half a year.

"I see nothing in the Senate Economics Committee recommendations that directly addresses this unfair and unnecessary burden on the people of Australia. Instead it advocates the well-worn path of attempting to help smaller and foreign lenders compete. A century of competition policy has not worked, which leaves a case for greater regulation to stop the big banks gouging excessive profits.

"Yet questions to do with the structure of the banking industry and its regulation, including the merits of a super-profits tax, have been dodged in recommendations calling for another 'broad ranging inquiry into the Australian financial system'," concluded Mr Richardson.

The Australia Institute's submission to the inquiry called for:

- Legislation to ensure that interest rates charged by banks move in line with changes to the RBA cash rate
- Capping certain bank fees
- Requiring banks to offer a no-frills, low-cost default option to new customers and controls on pushing unwanted services
- Investigating options for the structural separation of banking, especially separating the provision of payments services - the public utility functions - from commercial lending.

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